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SUBJECT: Georgia Bi-Weekly Update June 1

11. This cable contains current items of political, economic, and social interest concerning Georgia during the weeks of May 19-June 11.

Government Demolishes Church in Adjara

12. On May 21, residents of the village of Peria, in the Khelvachauri region of Adjara, together with opposition politicians and local clergy, held a protest action against the local government's demolition of a church under construction. Although local officials claimed that the construction was illegal, the opposition has seized on the issue, and especially on reports that the Adjara Governor Levan Varshalomidze had told church officials that the new church had to go because President Saakashvili wanted to build an amusement park on the site, which is on a mountain overlooking Batumi. As the controversy spread, Saakashvili met with Patriarch Illia II to discuss the issue, and the President's spokesperson said the incident was a result of misunderstanding and poor coordination between church officials and the local government in Adjara. In the end a compromise was reached: church construction was resumed, but local government will also build a wedding palace, amusement center, and other objects in the area. In an ironic postscript, within a week after the demolition of the church, the Khelvachauri municipality building collapsed in an unrelated accident.

Accusations against Special Operations Department

13. On May 24, Embassy representatives attended a screening of a new documentary backing up charges of abuses committed by the Ministry of Internal Affairs Special Operations Department (SOD). In a news conference May 22, Public Defender Sozar Subari demanded that SOD chief Irakli Kodua be suspended from the office for involvement in the arrest of innocent men, their torture and fabrication of evidence. As described by Subari and the documentary, the case involved three men detained by SOD operative in the Mestia district in western Georgia in February 2007 for alleged illegal possession of arms and drugs. Subari said his office had determined that evidence against the men was fabricated. Kodua allegedly did this for "personal revenge" after being angered when a friend of one of the men made a late night phone call to his girlfriend, Nanuka Zhorzholiani, a former reporter of Rustavi 2 TV and now head of the NATO Information Center.

Independence Day Celebrations

14. May 26, Georgia's independence day, was marked by the largest-ever military parade with the participation of 15,500 soldiers, military hardware, multi-purpose and attack helicopters, and fighter jets. Addressing the crowd, President Saakashvili stressed that Georgia was "one nation" made up of different ethnicities. He said "it is our responsibility to maintain a Georgia that is multi-ethnic and multi-confessional, which has been left to us by our ancestors, because multi-ethnicity is a treasure and religious diversity is a treasure." As in last year's address, Saakashvili spoke about the responsibility to maintain Georgia's borders "as our fathers have left to us."

Saakashvili on Tolerance

¶5. President Saakashvili participated in an international conference on "Globalization and Dialogue among Civilizations," held in Tbilisi May 24. In his speech Saakashvili spoke extensively about religious tolerance and promotion of a multiethnic culture in Georgia. "When I was in opposition, I said it and I'll say it again and again: for those people who hate Armenians in Georgia, I will be Armenian; for those who hate Azerbaijanis, I will be Azerbaijani. Recently, someone said I was Ossetian, which I take as a compliment.

Of course, it would be a great honor for me to be Jewish," Saakashvili said. Speaking of violations of the rights of the ethnic groups, Saakashvili expressed frustration that the international community has been silent about human rights abuses in Georgia's breakaway regions. He referred specifically to a recent incident in which Georgian books from schools in Gagra (Abkhazia) were reportedly burned in the town center.

Russian Embassy to Issue Some Visas

¶6. Starting May 29 the Russian Embassy in Georgia resumed the issuing of visas to a limited number of Georgian citizens. Visa issuance was suspended in September 2006 during a dispute over the Georgian arrest of four Russian officers for espionage. Under the new policy, the Embassy will issue visas on the basis of private invitations to close relatives (parents, brothers/sisters and children) of Russian citizens, as well as to Georgian citizens who have temporary residence status in Russia. Visas will allow a stay of only 3-4 months. Embassy officials described the change as "a humane act" that "has nothing to do with politics." Previously, visas were issued only for medical emergencies.

Saakashvili Visits Jordan

¶7. President Saakashvili visited Jordan May 18-21, where he took part in a World Economic Forum meeting and a summit of the so-called

TBILISI 00001298 002 OF 002

G11 countries. Saakashvili gave a speech entitled "Georgia: A Formula for Success" on his country's reforms. Saakashvili also met with Jordan's King Abdullah. On the margins of these events Jordan and Georgia signed a framework agreement that will form the basis for future cooperation between the two countries. King Abdullah was quoted as saying he was impressed with the reforms that are being carried out in Georgia. It was reportedly agreed that Abdullah would visit Georgia in mid-June.

Public Transportation Costs May Go Up

¶8. Following the recent decision of Tbilisi authorities to increase fares for subway and bus transport, a new resolution is pending that would double fares for minibuses (commonly called by the Russian name marshrutkas). Marshrutkas are a preferred means of transportation for most Georgians because of their flexible routes. The fare increase would affect a broad portion of the population, already affected by recent increases in cost of gas, electricity, water, and other means of public transport, as well as the rising price of consumer goods.

Batumi Airport Builds Ties to Turkey

¶9. Batumi International Airport, on Georgia's Black Sea coast, opened May 26. The airport is designed to accommodate domestic and international flights, and (thanks to a special arrangement with Turkey) flights that are treated as domestic Turkish flights. President Saakashvili and Turkish Foreign Minister Abdullah Gul attended the opening ceremony. The airport was constructed by the Turkish company Tepe-Akfen-Vie (TAV), the same company that built the Tbilisi International Airport opened earlier this year. TAV has a management contract with the Georgian government to operate both airports.

Free Trade Zones May Become Reality Soon

¶10. Parliament has passed a draft Law on Free Industrial Zones in the first reading without major changes. The law was initiated by

President Saakashvili to attract investment and technologies, and create jobs. It would allow the creation of free economic zones on territories with an area of at least 10 hectares. The law envisages 0 percent of VAT and property tax on all activities within the zone.

In some cases, companies may be exempt from the profit tax as well. The law also envisages elimination or simplification of licensing procedures. Transactions can be carried out in any foreign currency. Business-related disputes will be referred to international arbitration courts. Several ministries have requested clarification of certain clauses in the law before its second reading. The law will likely receive final passage by the end of June and be fully in force by September 1, 2007.

IMF Delegation Visits Georgia

¶11. An International Monetary Fund mission headed by John Wakeman-Linn arrived in Tbilisi on May 24 for a one-week visit. Roman Gotsiridze, President of the National Bank of Georgia (NBG), a recent target of parliamentary criticism for the increased inflation rate, announced that the IMF fully supports the fiscal and monetary policy implemented by the NBG. IMF mission member David Owen said after meeting Georgian officials that the keys to keeping inflation below 9 percent were foreign currency reserve accumulation, export growth, and increasing competitiveness of local production through continuing structural reforms. He said the NBG should proceed with capital inflow regulation by means of interventions in the currency market. The IMF is currently considering giving Georgia a USD 20-million tranche within the framework of the Poverty Reduction and Growth Facility (PRGF) program.

Reform of Business Dispute Resolution

¶12. On May 21, Finance Minister Lexo Alexishvili made a presentation for the Georgian business community on the GoG's efforts to facilitate tax and customs dispute resolution with the goal of improving the business climate. The plan calls for the introduction of a dispute case management and tracking system, including statistical analysis, process monitoring and training of the Georgian government staff. The USAID/Business Climate Reform Project has invited a former Commissioner from the Department of Taxation and Finance of New York, Georgian-American Andrew Sidamon Eristoff, to assist with the reform. In 2006, the Finance Ministry's Council of Appeals received 78 cases, of which one-third were resolved in favor of the entrepreneurs. In the first quarter of 2007, the Council received 44 appeals. Alexishvili said the increased number of appeals was a sign of the increased credibility of the Council. He also stressed the importance of strengthening of the judiciary system, because half of the cases declined by the Council are eventually filed with the courts.

TEFFT